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C O N F I D E N T I A L SECTION 01 OF 03 LONDON 004512

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TREASURY FOR U/S LEVEY; MILLERWISE; EDDY

E.O. 12958: DECL: 12/10/2017
TAGS: [EFIN](#) [KTFN](#) [PREL](#) [MNUC](#) [PTER](#) [IR](#) [UK](#)
SUBJECT: UK OFFICIALS TELL U/S LEVEY THAT WILL ON IRAN IS
STRONG BUT UK LEGAL CONSTRAINTS LEAVE THEM WEAK

REF: LONDON 04328

Classified By: A/ECONOMIC MINISTER COUNSELOR SANDRA CLARK, REASON 1.4 (B,D)

11. (C/NF) Summary: Senior UK officials told Treasury Under Secretary Stuart Levey November 30 that international action

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against Iran has increased pressure on the regime and made life "significantly uncomfortable" for Iranian leadership, but has not so far succeeded in changing Iran's nuclear program. HMG officials generally agreed that the multilateral process is in danger of losing momentum unless there is a breakthrough soon. The UK is considering all options available in the UN (aiming for a late December UNSCR), EU and domestically, but any UK unilateral measures must conform with the UK's legal requirements. Levey stressed that there are four months before Iranian elections, and, if the UK's (and others') political decision is that Iran and certain banks are threats, we should pursue all avenues, domestic and multilateral, in order to have an impact on the Iranian regime's behavior before then. The Cabinet Office's Margaret Aldred said the UK shared U.S. frustration, but "should allow modest satisfaction that the Iranians are nervous" and we have "succeeded in making life significantly more difficult" for the Ahmadenijad regime. The UK agreed to study creative ways to shut down banks, such as looking into U/S Levey's suggestion of using paragraph 6 of UNSCR 1737 as a justification for action against Iranian banks operating in London. End Summary

U/S Levey Presses for Creativity in UK Approach

12. (C/NF) In meetings with Cabinet Office's Margaret Aldred, Defense and Overseas Secretariat; Antony Phillipson, Iran Coordinator, Foreign and Commonwealth Office; and Stephen Pickford, Managing Director, International Finance, HM Treasury, U/S Levey pressed for urgency and creativity in the UK's efforts both domestically and in the EU. Levey described how officials in other countries he's visited - China, South Korea, Japan, Italy and France - are receptive to pressing ahead against Iran, but have often pointed to London as the center of Iranian banking outside of Tehran. East Asian governments in particular are willing to follow - but not get out in front of - the UK in instituting tougher banking measures. Levey stressed that in order to get progress, the U.S. and UK needed to show we were doing all we could, including taking formal domestic actions against

Iranian banks.

13. (C/NF) U/S Levey suggested the UK consider using language in paragraph 6 of UNSCR 1737, which states that "all states should also take the necessary measures to prevent the provision to Iran of . . . financial assistance . . . related to the supply . . . of prohibited items . . ." as a legal lever to give the UK (and others) the cover necessary to shut down Iranian banks. If the UK, France and Germany could use this language as a way to shut down banks Melli and Mellat, which all agree are proliferators, it could create both pressure in its own right, and momentum in other countries to do the same. Aldred and Pickford promised to look into the legal possibilities of using this option. Aldred said the UK's banking regulators were already using 1737 para 6 as their basis for enhanced scrutiny of the banks, but agreed to look at expanding the application of this provision. Aldred stressed, however, that the UK was hoping for UN - or EU - action because of the legal risk of being challenged on any domestic action they take.

UK focused on multilateral levers: UN

14. (C/NF) Phillipson, in a separate meeting, admitted that neither EU nor UN efforts thus far have succeeded as hoped. The UK believes more pressure must be put on Iran via financial measures and increased international pressure. Agreement on timing with P5 1 partners will be difficult; Aldred called for a strong push in the EU and UN before January, but Phillipson told Levey that Germany does not want any meaningful action in the UN until January. Phillipson discussed the need to get a UN agreement soon, but one which passes the "credibility test" in the international community. Aldred questioned whether China would continue to hide

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behind Russia, and said that the Russians would link their position to the Iraq rollover and Kosovo resolutions. Aldred described the importance of a coherent, collective effort so that "no one feels there are winners and losers," and so "Iranians cannot explore other options" to commercial transactions. Aldred also said the U.S. needs to bring pressure on Russia in the UN, and admitted the UK carries no weight with Russia at this point. If the UN process breaks down due to Russian or Chinese intransigence, the EU could act, but it may not be sufficient, Phillipson warned.

EU
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15. (C/NF) Within the EU, the UK maintains it is playing a forceful role. Aldred told Levey UK Cabinet Office representatives were in Germany that very day trying to persuade the Germans to be "more robust" on financial sanctions and in applying political pressure, and Germany has agreed to designate Melli (Comment: It is unclear if Germany agreed to this in the EU as well as the UN. End comment), but not until January. Phillipson said, however that the UK and France were working very hard for little gain with other EU member states. The UK is pressing for tough financial sanctions against specific entities, and they only get agreement on vague political commitments, Phillipson said. The UK and France are preparing a report on further measures the EU could adopt, including measures on insurance, shipping, oil and gas, but there is nervousness on the part of some member states about acting before it is clear that the UN process has gone as far as it can - one way or the other. According to Phillipson, German Chancellor Merkel, for instance, believes the UN is the proper forum for action against Iran, while others are afraid Russia and China will scoop up commercial contracts if the UN does not act.

16. (C/NF) Phillipson told Levey the UK believes that preventing a nuclear-armed Iran is of such importance that countries will have to make a sacrifice. He also said some

of the smaller EU countries need to know better what is happening in the UN process, and to be told that there should be a cutoff date by which the EU and individual states would begin to act if the UN had not. Pickford suggested that "outside pressure" on Germany, Italy and Austria could be useful in the EU process, and said Austria would "fall in line" once the big countries came on board. Pickford also said the UK is ready to press in the next FATF meeting for further action, and HMT wants to begin building a consensus in the G-7 on Iran during Japan's presidency.

Domestic Options

¶17. (C/NF) Domestically, Aldred told Levey there was "no lack of (UK) political will to finding imaginative ways forward, only legal constraints." Phillipson admitted that it was a legitimate question as to why Iranian banks are still operating in the UK, and was more forward-leaning than HM Treasury or Cabinet Office officials in the room in calling for the UK to be out in front on pursuing all avenues - including domestic - against Iran. He said Sepah is essentially frozen, but that the UK should go back to its Attorney General and ask whether there is sufficient evidence against Bank Saderat to sanction it as well. (NOTE: The previous Attorney General, under the Blair government, decided there was insufficient evidence to sanction Saderat. End note) Pickford pointed to success in "crippling" Bank Sepah, forcing the Iranian banks to clear transactions in Euros by closing down their sterling operations in UK-chartered banks, and increasing regulatory inspections on the UK-based operations of Iranian banks. Aldred said EU sanctions would be the only way to stop Iran from using the Euro to clear transactions, and agreed this was an area EU governments should examine.

¶18. (C/NF) In particular, Pickford described how the Financial Services Agency (FSA) was using its resources as fully as possible and had sought a legal opinion whether they could use confidential information in their "fit and proper" bank reviews. When U/S Levey asked whether FSA would be able to consider classified reporting in the case of a bank involved in terrorism or criminal activity Pickford replied that it would be possible, depending on the quality of the

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intelligence. HMT is also looking at the possibility of legislation on non-proliferation, but that would take time and competes with other legislative priorities. Aldred said the UK is looking at travel bans of certain officials as a way of increasing pressure, and stressed that we all need to convince the Iranians that their actions are "damaging Iran's proper place in history." She wants people on the street-level in Tehran to question why there is no gasoline available in this major oil-producing country.

Terrorist Finance - LIFG

¶19. (C/NF) Aldred told Levey the UK was hoping to designate to the UN's 1267 committee another four names from the Libyan Islamic Fighting Group within a few weeks. She said this should have the desired effect of bringing pressure on LIFG and al-Qaeda after their merger. However, Pickford told U/S Levey that the UK has decided that one of the individuals on the original U.S. designation request, Subeita, has moved away from extremism.

¶10. (C/FN) Comment: Closely following U/S Levey's November 30 visit, HMG's immediate reaction to the USG announcement, on December 3, of the new National Intelligence Estimate on Iran was to signal HMG's unqualified support for the UNSC process. Prime Minister Brown and Foreign Secretary Milliband made strong statements on Iran. The FCO's public guidance said that the NIE simply underlined the immediate need for increased international pressure on Iran in response to

Iran's continued pursuit of nuclear enrichment. Publicly and privately, the UK is fully committed to increasing the pressure on the Iranian regime. The U.S. will need to continue to press the UK to be creative in finding ways to take domestic action against banks that they agree are complicit in nefarious activity; and will need to work hard to convince some of the UK's skeptical EU (and UN) partners of the continued threat after the release of the NIE.

U/S Levey has cleared this cable.

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